Fiscal Note

BILL # SB 1164

TITLE: income tax; corporate sales factor

SPONSOR: Yarbrough

STATUS: As Introduced

PREPARED BY: Ted Nelson

Description

The corporate income tax apportionment formula is used in calculating how much of the income of a multi-state corporation should be allocated to Arizona to be included in the corporate income tax base. Currently, taxpayers are provided the option of a double-weighted (50%) sales factor or an 80% sales factor. SB 1164 proposes to modify this formula by increasing the higher option from 80% to 100% in equal increments over a 2-year period, beginning in Tax Year (TY) 2016.

Estimated Impact

The bill would reduce corporate income tax revenue to the General Fund by $(57.3) million in FY 2017, when the sales factor is increased from 80% to 90%, and $(119.5) million in FY 2018 when the single (100%) sales factor option is implemented. Estimates for the impact beyond this time frame are not provided.

Analysis

JLBC Staff does not have access to the corporate taxpayer data needed to derive an independent estimate of the impact. As a result, this analysis relies on information provided by the Department of Revenue (DOR). DOR has recently published data and analysis on corporate income tax collections from 2008, when the sales factor option was increased from 60% to 70%. Using corporate taxpayer data, DOR estimated that increasing the sales factor from 80% to 100% in that year would have resulted in $(88.8) million less in corporate income tax collections. JLBC Staff has assumed that the effect of the revised formula in a given year depends on the expected level of corporate tax collections in that year, and so has pro-rated the DOR estimate based on expected corporate tax collections in FY 2017 and FY 2018, the years the bill would take effect. The table below depicts estimated net corporate collections under both the Baseline scenario and with SB 1164 implemented.

Fiscal Year	Net Collections Under Baseline	Net Collections Under SB 1164	Annual Impact of SB 1164
2009	$592,157,300	$592,157,300	$ -
2010	413,193,300	413,193,300	-
2011	573,453,400	573,453,400	-
2012	673,807,800	673,807,800	-
2013	704,802,959	704,802,959	-
2014	766,120,816	766,120,816	-
2015	800,596,253	800,596,253	-
2016	835,021,892	835,021,892	-
2017	870,927,833	813,648,887	(57,278,946)
2018	$908,377,730	$788,893,849	$(119,483,881)

The analysis above does not reflect the behavioral responses of corporations to an increase in the corporate sales factor. Increasing the higher of the optional sales factors can reduce some corporation's tax liability and therefore serve as an incentive for businesses to employ more capital and labor than they otherwise would. These "dynamic" effects may result in an increase in economic output, which in turn may generate more tax revenue dollars for the state General Fund than what a "static" analysis assumes.

(Continued)

Local Government Impact

The Urban Revenue Sharing (URS) formula distributes 15% of corporate income taxes collected 2 years prior to incorporated cities and towns. The provisions contained in this bill would impact the URS distributions beginning in FY 2019, with local governments' URS distributions decreasing by $(8.6) million in that year, and by $(17.9) million in FY 2020 and beyond.

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